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ABSTRACT

This module is one of a set prepared in conjunction with the Title I "Project to Train Volunteer Leaders to Conduct Consumer Education Courses." It is designed to be a basic text for use in making a one-hour presentation on personal money management. Topics include reasons for having a budget and guidelines for successful budgeting, elements of a budget and steps in budget preparation, places where money should be kept, essential features of checking and savings accounts and how they operate, saving and investment alternatives to regular savings accounts and how they work, the essentials of credit use, and how to minimize the risk of excessive debt. An accompanying slide set is keyed to the text of the module. (An illustration for each slide is provided.) A multiple-choice/true-false quiz (with answers), discussion questions, and a bibliography conclude the module. (CT)

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PERSONAL MONEY MANAGEMENT

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CONSUMER EDUCATION PROJECT

Project to Train Volunteer Leaders to Conduct
Consumer Education Courses

Title I, Higher Education Act of 1965

Grantee Institution: Northern Virginia Community College
1978

CE 028 473

Consumer Education Project

This module is one of a set of seven prepared in conjunction with the Title I "Project to Train Volunteer Leaders to Conduct Consumer Education Courses." It is designed to be a basic text for use in making a one-hour presentation. Through use of the attached bibliography, a more in-depth knowledge can be acquired and the presentation expanded. For shorter presentations, portions of it can be extracted. A slide set accompanies each module and is keyed to the text of the module. For a guide to presentation skills, the reader is referred to the module entitled Leadership and Teaching Skills.

Volunteers throughout the Northern Virginia area have been trained to give presentations on the following six consumer-related topics for which modules have been developed:

- Rights and Responsibilities in the Marketplace
- How to Buy Goods and Services
- Personal Money Management
- Legal Aspects of the Marketplace
- Credit
- Sources of Consumer Assistance

The services of these volunteers are available to citizen groups, schools, and organizations through the state and local consumer affairs offices listed in the paragraph below. The purpose of this program is to increase consumer awareness and raise the level of individual consumer competency among our citizens.

The grant establishing this project was awarded to Northern Virginia Community College by the State Agency for Title I under the Higher Education Act of 1965. The program, however, is a cooperative effort involving the Consortium for Continuing Higher Education in Northern Virginia, George Mason University, the University of Virginia, Virginia Polytechnic Institute and State University, as well as the Virginia Office of Consumer Affairs, the Alexandria Office of Consumer Affairs, the Arlington County Office of Consumer Affairs, the Fairfax County Department of Consumer Affairs, and the Prince William County Office of Consumer Affairs.

For additional information, call or write:

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c/o Virginia State Office of Consumer Affairs
3016 Williams Drive
Fairfax, Virginia 22031
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PERSONAL MONEY MANAGEMENT

VOLUNTEER LEADER'S GUIDE

PERSONAL MONEY MANAGEMENT

Introduction

This guide is intended to provide a framework around which you can build your presentation. While it is complete enough for you to read verbatim and make a passable talk on personal money management, your presentation will be much more interesting if you add to it from your own background and research. A selected bibliography is provided for your use in researching your subject and expanding this guide. You should keep abreast of new developments in consumer money management and incorporate them in your presentation when appropriate.

Pre-presentation Arrangements

Check the facility in which your presentation is to be made to insure that:

1. Seating is adequate and as comfortable as possible.
2. All audio-visual equipment and materials are present and in proper working order.
3. You know where the switches for lights and electrical outlets are, and how they work.
4. Lighting and projection equipment operate properly.
5. Handout materials are available in sufficient quantities for the prospective audience.
6. Others involved in the presentation, either as technicians or guest speakers, know how they fit into the presentation schedule.

Presentation Outline

- I. TITLE: Personal Money Management
- II. OBJECTIVES: Upon completion of this seminar, participants will be able to:
 - A. Define the term "Budget."
 - B. List some reasons for having a budget and give the guidelines for successful budgeting.

C. Name the elements of a budget and describe the steps in budget preparation.

D. List the places where money should be kept.

E. Name the essential features of checking accounts and explain how they operate.

F. Name the essential features of savings accounts and explain how they operate.

G. List some saving and investment alternatives to regular savings accounts and describe how they work.

H. Describe the essentials of credit use and tell how to minimize the risk of excessive debt.

III. LENGTH: 1 hour (This time may be increased or decreased according to the needs of the audience, your ability as an instructor, and the time available.)

IV. AUDIO-VISUAL AIDS:

A. Slide set, "Personal Money Management," consisting of 41 slides.

B. Thirty-five millimeter Carousel projector.

C. Chalkboard, chalk and eraser.

V. TEACHING PROCEDURE:

Note: In the following material, instructions for the instructor will be single spaced and the text of the presentation will be double spaced.

Special Instructions

Write your name on the chalkboard

Turn on slide projector
Show slide PMM-1
Project Slide

Instructor Reference

A. Introduction

PERSONAL MONEY MANAGEMENT
Consumer Education Project

PROJECT TO TRAIN VOLUNTEER
LEADERS TO CONDUCT
CONSUMER EDUCATION COURSES--
TITLE I, HIGHER EDUCATION
ACT OF 1965

Grantee Institution--Northern
Virginia Community College

PMM-1

Show slide PMM-2
Personal Money Management

PERSONAL MONEY MANAGEMENT

- * Requirements
- * Methods
- * Precautions

PMM-2

1. Introduce yourself and give the title of your presentation. If the format of your presentation is to be a discussion, and the audience is small enough, you may want to conduct self-introductions. If you do, you should ask each participant to give his name and a little information about his background.

2. Briefly outline your qualifications to discuss this particular subject.

3. Explain the importance of personal money management for consumers in general, and for the group you are addressing in particular.

Show slide PMM-3
Specific Objectives

SPECIFIC OBJECTIVES

Upon completion of this program you will be able to:

- * Define the term "budget."
- * List some reasons for having a budget and give the guidelines for successful budgeting.

PMM-3

Show slide PMM-4
Specific Objectives
(Continued)

SPECIFIC OBJECTIVES (Continued)

- * Name the principal elements of a budget and describe the steps in budget preparation.
- * List the places where money should be kept.
- * Name the essential features of checking accounts and explain how they operate.

PMM-4

Show slide PMM-5
Specific Objectives
(Continued)

SPECIFIC OBJECTIVES (Continued)

- * Name the essential features of savings accounts and explain how they operate.
- * List some saving and investment alternatives to regular savings accounts and describe how they work.
- * Describe the essentials of credit use and tell how to minimize the risk of excessive debt.

PMM-5

4. State the specific objectives of your presentation in terms of what the participants will be able to do upon its completion.

5. Explain any evaluation procedure you plan to use to measure accomplishment of these objectives. The procedure you use should be non-threatening to the participants and designed to measure your effectiveness as a presenter rather than their proficiency as learners. If you wish to use a quiz to summarize your presentation, a sample is provided at the end of the module.

6. Set the tone for your presentation.

a. Encourage questions and discussion.

b. Explain the availability of handouts and how they will be distributed.

c. Tell whether or not notetaking is desirable.

B. Presentation

1. Personal Money Management begins with a determination of how much money you have, what you want to do with it,

and the development of a plan to accomplish what you want to do within the means available. In other words, a budget.

Show slide PMM-6
Financial Planning

<u>FINANCIAL PLANNING</u>	
<u>FAMILY INCOME</u>	<u>PLANNING</u>
Job	
Bonus	
Interest	
Dividends	
<u>FIXED EXPENSES</u>	<u>EVERYDAY EXPENSES</u>
Rent, Mortgage	Food
Fuel Bills	Transportation
Loan Payments	Furniture
Insurance	Recreation
PMM-6	

2. A budget is a blueprint for each month's spending. It will enable you to know where your money goes each month, your financial status at any given time, and what progress you are making toward your money goals and ambitions.

Show slide PMM-7
Family Budget - Income

<u>FAMILY BUDGET</u>		
<u>INCOME</u>		
JANUARY-----	DECEMBER	<u>Total</u> <u>for year</u>
JOB INCOME(S)	\$	
Interest		
Dividends		
Rent		
Gifts		
Bonus		
Tax Refunds		
Second Job		
Profit from Sales		
Other:		
Monthly Total	\$	
		PMM-7

3. A format similar to that shown in this slide will enable you to determine your disposable income after deductions for taxes, union dues, et cetera. The amounts of income which are not known should be conservatively estimated. Totals should be adjusted as income increases or decreases.

Show slide PMM-8
Family Budget -
Fixed Expenses

<u>FAMILY BUDGET</u> <u>FIXED EXPENSES</u>		
JANUARY -----	DECEMBER	<u>Total for Year</u>
Rent or Mortgage	\$	
Fuel Bills		
Electricity, Gas		
Water		
Telephone		
Loan Payments		
Education Payment		
Taxes: Real Estate		
Income		
Insurance: Home		
Life		
Automobile		
Medical, Dental		
Savings		
Other:		
Monthly Total	\$	

PMM-8

4. Fixed expenses constitute all of the expenses which are generally irreducible and should include an amount for savings. The key to good money management is the even distribution of fixed expenses on a monthly basis.

Show slide PMM-9
Family Budget -
Allocation for
Everyday Expenses

FAMILY BUDGET
ALLOCATION FOR EVERYDAY EXPENSES

	JAN.-----DEC.	Total for Year
Total Monthly Income	\$	
Less		
Total Fixed Expenses	\$	
Total Available	\$	

PMM-9

5. The amount of disposable income available for everyday expenses can be determined by subtracting the fixed expenses for any given period from the income for the same period.

Show slide PMM-10
Family Budget -
Everyday Expenses

FAMILY BUDGET
EVERYDAY EXPENSES

	JAN. --- DEC.	Total for Year
Food	\$	
Household Services & Expenses		
Furniture, Equipment		
Clothes		
Transportation		
Personal Care		
Education		
Recreation		
Gifts, Contributions		
Other:		
Monthly Total	\$	
Total Available	\$	

PMM-10

6. To arrive at an accurate estimate of daily living expenses, a careful record should be kept of all expenses in this category for a period of two or three weeks. A plan can then be made for one or two months at a time.

Show slide PMM-11
Guidelines for
Budget Preparation

GUIDELINES FOR BUDGET PREPARATION

- * Avoid impossible spending limits.
- * Don't cut major expense items.
- * Don't overlook major expense items.
- * Be realistic.
- * Allow for unexpected expenses.
- * Keep detailed records.
- * Reduce expenses when they exceed income.

PMM-11

7. Your budget must be realistic. If you set limits on spending knowing that you will have to exceed them, your plan will not work. When you find that you must cut expenses, do not cut major expense items, instead look for possible reductions in minor expense items. For the first month or so of your budget period keep careful records and use them to determine where your plan can be modified if necessary.

Show slide PMM-12
American Spending
Habits

<u>AMERICAN SPENDING HABITS</u> (MID-1970'S)	
Food, alcohol and tobacco	22.3%
Housing	14.5
Household operation	14.4
Transportation	13.6
Clothing	10.1
Medical care	7.7
Recreation	6.5
Personal business	5.6
Private education	1.7
Personal care	1.5
Religious and welfare activities	1.4
Foreign travel	.7

PMM-12

8. The larger expenditures of Americans in general are for food, housing, clothing, and transportation. These are likely areas for expense reduction by careful buying, doing it yourself, and using cheaper modes of transportation whenever possible.

Show slide PMM-13
Where Money Should
Be Kept

<u>WHERE MONEY SHOULD BE KEPT</u>
* Joint checking account
* Separate checking accounts
* Savings account
* Combination--Savings and checking account

14 PMM-13

9. Where an individual or family should keep their money, in order to maintain financial control, is largely a matter of choosing a repository which best fits their needs. Obviously, keeping money at home in cash is risky business and it makes financial control difficult. The best alternative available today is a bank account of some kind. At least a bank account should be used as the place to keep cash needed for day to day expenses.

a. Joint checking accounts allow any party to the account ready access to the money when it is needed. The chief drawbacks to this kind of account are keeping the balance straight when more than one person is writing checks, and the fact that any one of the holders of the account can withdraw all of the money without the knowledge of others.

b. Separate checking accounts or individual checking accounts avoid these drawbacks but may incur service fees because of smaller balances.

c. Savings accounts do not permit such ready access to money

deposited as checking accounts do. There is less temptation to spend the money and it earns interest while it is on deposit.

d. Combinations of checking and savings accounts eliminate most of these problems; and in recent years, the ability to transfer funds from one account to the other by telephone request has improved the usefulness of such combinations immeasurably.

Show slide PMM-14
Alternate Methods of
Financial Control

ALTERNATE METHODS OF FINANCIAL CONTROL

- * Allowance Method
- * "Broken Sugar Bowl" Method

PMM-14

e. If a family or individual elects not to use checking or savings accounts as the primary means of financial control, they may resort to other methods. Two of the most popular are the allowance method, and the "Broken Sugar Bowl" method. In the allowance method, money remaining after fixed expenses and savings are paid is given to the parties concerned as an allowance for daily expenses. The "Sugar Bowl" method is the division of

the money into physically separated sums earmarked for various purposes. The problems with the latter system, other than the obvious risk of storing cash at home, are the likelihood of money intended for one purpose being used for another, and the lack of control.

Show slide PMM-15
Financial Institutions

FINANCIAL INSTITUTIONS

- * Full Service Banks
- * Savings and Loan Associations
- * Mutual Savings Banks
- * Credit Unions

PMM-15

10. Before choosing a financial institution in which to deposit funds, you should know a little about all of them.

a. Full service banks, also known as commercial banks, trust companies, or community banks are chartered by the state or the federal government. They are stockholder owned and organized to make a profit from their operations. Deposits in these banks are insured by the Federal Deposit Insurance Corporation. They offer the widest range of

financial services available but customarily pay the lowest rate of interest on savings.

b. Savings and loan associations, sometimes called building and loan associations, cooperative banks, savings associations, or homestead associations are also operated under a federal or a state charter. They are mutually owned by their shareholders (depositors) who become shareholders by virtue of their deposits. Deposits are insured by the Federal Savings and Loan Insurance Corporation or by state chartered savings account insurance organizations. Interest on shareholder accounts is paid as a dividend. The rate of return is usually higher than that received on deposits in commercial banks. These associations do not make business loans, and until recently, did not offer checking accounts. Some currently offer so-called NOW (Negotiable Order of Withdrawal) accounts.

c. Mutual savings banks are specialized, nonprofit savings institutions organized by their depositors on a mutual basis without stockholders.

They currently operate in eighteen states and are administered by trustees. Deposits are insured by the Federal Deposit Insurance Corporation or similar state deposit insurance funds. Earnings on deposits are paid to shareholders as dividends. The rate of return on these accounts is usually higher than that on deposits in commercial banks.

d. Credit unions are associations of people with a common bond such as a place of employment, a professional association, place of residence, union membership or a religious group. They are governed by their members on a one member one vote basis. Members are shareholders rather than depositors and receive dividends based on earnings from loans. Loans are made at low interest rates to members and shareholdings are insured by the National Credit Union Administration or by state or private insurance programs. Some credit unions offer "sharedraft" checking accounts for members.

11. A checking account is a convenient and safe way to transfer cash from one person or place to another. Both

the check register and the cancelled checks provide highly acceptable records of payments made. To open a checking account you must first decide the kind of account best suited to your needs, then make an initial deposit, and sign a signature card or cards. The two principal kinds of checking accounts are "regular" and "special."

a. A regular checking account is best if you write more than four or five checks per month and can maintain a minimum balance in the account. Many banks allow an unlimited number of checks to be written on a checking account if a minimum balance of \$50 to \$300 is maintained. Others require a monthly maintenance charge as well as a minimum balance, while others allow a certain number of checks to be written before a service charge is imposed. A few offer free checking with no service charge and no minimum balance. Some banks have an overdraft feature for their regular checking accounts. This feature may permit overdrafts with the account holder's own checks up to a preset limit, or may require the use of special checks issued for that purpose.

b. Special checking accounts feature a ten or fifteen cent charge for each check written, but require no minimum balance. This type of account is best suited to persons who write very few checks and whose checking account balance is regularly quite low.

Show slide PMM-16
Charges for Checking
Accounts

CHARGES FOR CHECKING ACCOUNTS
NORTHERN VIRGINIA BANKS
(19 Banks Surveyed)

- 11 offer free checking
 - 1 \$300 minimum balance; below \$1.00 per month plus 10¢ a check
 - 1 \$300 minimum balance; \$1.00 per month if below
 - 1 \$200 average daily balance; below \$1.00 first 10 items, 6¢ thereafter
 - 3 \$100 average daily balance; under, 2 banks charge \$1.00 per month, 1 charges \$2.00 per month
 - 2 \$50.00; if under, 1 bank charges \$1.00 per month, and the other one charges \$2.00 per month

PMM-16

c. Nineteen Northern Virginia banks were surveyed and eleven were found to offer free checking. The others required minimum balances and charged fees and/or check charges when the account dropped below the minimum.

Show slide PMM-17
Determining Best
Type Checking Account

DETERMINING BEST TYPE CHECKING ACCOUNT

* Annual = 12 x No. x Bank's + Bank's
cost of of checks per Monthly
Special written check Maint.
Checking each fee Charge
Account month

* Annual = Bank's - Amount x Inter-
cost of Required ordi- est
Regular Balance narily rate
Checking Balance main- which
Account can
be
for con- car-
venience ried
& to in a
avoid sav-
over- ings
drafts account

PMM-17

Show slide PMM-18
Calculating Annual
Checking Account
Costs

CALCULATING ANNUAL CHECKING ACCOUNT COSTS

Annual Cost of Special Checking
Account

$$\$24 = (12 \times (10 \times .10 + 1.00))$$

Annual Cost of Regular Checking
Account

$$\$12.50 = (300 - 50) \times 5\%$$

PMM-18

d. Using this formula you can
find the annual cost of your checking
account whether special or regular.

e. The best type of account in
terms of cost can be determined by
comparing the annual cost of each. If
the bank's required balance minus the

amount ordinarily carried in the account for convenience is zero or less, it should be considered to be zero. If it is more than zero, the difference should be transferred from savings to checking. The interest on the balance required in the checking account is the cost because the amount would be drawing interest if it were not in the checking account.

f. Other checking account costs include printing costs for checks, penalties for overdrafts or returned checks and charges for stopping payment on checks, looking up past records, and certifying checks.

Show slide PMM-19
Signature Card

<u>SIGNATURE CARD</u>	
(1)	Residence Phone
(1)	Employment Phone
(2)	Residence Phone
(2)	Employment Phone
Social Security No: _____	
Opened by: _____	Initial Deposit: _____
Date Opened: _____	
<u>BANK REFERENCE & I.D.</u>	
Manner of Interest Payment	
☐ Remit check to address of signer	☐ Credit Ckg. Acct. No. _____
1	2
PMM-19	

g. After a decision is made concerning the kind of account and the initial amount is deposited, a signature card must be completed for each person who will use the account. One side of the standard signature card is for personal information, the other for the depositors agreement and authorized signature(s).

Show slide PMM-20
Signature Card

<u>SIGNATURE CARD</u>	
(1)	_____
(2)	_____ _____
☐ Jt. with Right of Survivorship ☐ Jt. without Right of Survivorship	
You are authorized to recognize _____ (number of signatures required) of the above signatures in payment of funds or the transaction of any business for this account. The signers agree that all accounts with this bank are sub- ject to and governed by the Uniform Commercial Code, the Banking Act of Virginia, the Rules and Regulations of the Clarendon Bank & Trust and the Federal Deposit Insurance Corporation, all as applicable in the State of Virginia, and as amended from time to time.	
☐ This is a payable on death account. Depositor designates _____ as beneficiary thereof.	
Principal daytime phone _____	
PMM-20	

h. Operating a checking account requires a certain amount of effort on

the part of the account holder. Each month the bank returns the depositor's cancelled checks along with a comprehensive statement of his financial dealings with the bank. When these are received the depositor should balance his account as soon as possible.

Show slide PMM-21
Balancing Checking
Account

BALANCING CHECKING ACCOUNT

- * Sort checks in numerical order or by date issued.
- * Reduce your checkbook balance by any service charges not previously recorded.
- * Enter the statement balance. _____
- * Add deposits not shown. _____
- * Total outstanding checks and subtract. _____
- * Balance should equal your checkbook balance. _____

PMM-21

The procedure for balancing a checking account consists of determining whether or not the balance shown in the depositor's check register and the balance shown on the bank statement agree.

This is quickly and easily done by deducting from the bank statement balance all outstanding checks and charges and adding to it all deposits not listed on the statement. If the account does

not balance the discrepancy should be systematically located by verifying checkbook math and the completeness and accuracy of register entries. It should not be assumed that the bank is correct, and if, after everything is checked, the error has not been found, the bank should be contacted for assistance.

i. Checking accounts are subject to a time lag. Checks presented to local businesses may be paid immediately, but those presented out of town may require several days to clear. Deposits may not be immediately available if it is the bank's practice to put a "hold" on deposits made by check until the check clears. If a check is deposited and returned marked insufficient funds, the individual who issued the check should be contacted before the check is again submitted for deposit.

12. A savings account is a simple, convenient way to accumulate funds and guard against the unexpected. Funds are readily available, but they earn interest while on deposit and they are

federally insured against loss. Everyone should have a minimum of savings equal to approximately two months income, but this amount may vary according to circumstances.

Show slide PMM-22
Determining the
Amount to Save

DETERMINING THE AMOUNT TO SAVE

- * What kinds of emergencies can be expected?
- * How much financial protection is available for emergencies?
- * What other assistance is available?
- * What additional sources of income could be developed?

PMM-22

The kinds of emergencies for which savings may be needed; whether these emergencies will be taken care of by insurance, workman's compensation, or some other form of protection; and what alternate sources of financial help or additional income can be developed are the major considerations in determining how much to save. Saving should be a regular process with small amounts being put aside regardless of other obligations. Where to save depends on convenience, the interest paid and the method the savings institution uses to calculate interest.

Show slide PMM-23
Comparative Interest
Returns

COMPARATIVE INTEREST RETURNS

Interest for 6 months on \$4000 in deposits reduced by \$2000 in withdrawals in the first three months by calculation method.

* Low balance	\$44.93
* First in First Out (FIFO)	\$52.44
* Last in First Out (LIFO)	\$58.44
* Day of deposit to day of withdrawal	\$75.30

PMM-23

Most financial institutions credit interest to accounts on a quarterly or daily basis and compound that interest daily or quarterly. If interest is credited and compounded daily, the interest earned each day is credited that day thus increasing the base on which interest is figured the following day.

Show slide PMM-24
Savings Interest
Rates

SAVINGS INTEREST RATES--LEGAL LIMITS

<u>MATURITY</u>	<u>BANKS</u>	<u>SAVINGS & LOANS</u>	<u>CREDIT UNION</u>
Regular Account+	5.00%	5.25%	No maturity requirements
90 Days	5.50%	5.75%	Legal limit on dividends =
1-2½ yrs.	6.00%	6.50%*	7%
2½-4 yrs.	6.50%	6.75%*	
4 yrs.	7.25%*	7.50%*	
6 yrs.	7.50%*	7.75%*	

+No maturity (technically 30 days)

*Requires minimum deposit of \$1,000

PMM-24

There are three principal types of savings accounts.

Show slide PMM-25
Types of Savings
Accounts

TYPES OF SAVINGS ACCOUNTS

- * Regular Savings Accounts
- * Time Deposit Savings Accounts
- * Retirement Savings Accounts

PMM-25

a. Regular savings accounts are the most flexible. Money can be withdrawn from them at any time without penalty, but they usually pay the lowest interest rates. The records of these accounts are maintained in a passbook or reported in computerized statements.

b. Time deposit accounts require that the money be left in the account for a period of time. Interest rates are higher, but there is usually a penalty for early withdrawal.

c. There are several kinds of retirement accounts.

Show slide PMM-26
Individual Retirement
Account

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

- * Any individual who does not currently belong or qualify for a retirement plan.
- * May contribute up to 15% of earned income, not to exceed \$1,500 per year.
- * Contributions are tax deferred.
- * Funds may be withdrawn at age 59½ and must begin by age 70½.
- * Funds invested in savings accounts, mutual funds, stocks, bonds, life insurance annuities, retirement bonds.

PMM-26

1) The individual retirement account (IRA) is available to people not participating in any other retirement plan. An IRA can be established with a bank or other savings institution as custodian. Its chief benefits are that yearly contributions to it are tax deductible and interest or dividends on the account are also tax exempt when they are earned. The principal and accumulated interest become taxable when they are withdrawn. Contributions are a maximum of 15% of income or \$1500, whichever is less. The minimum may be as small as desired, depending on the agreement made with the custodian. Funds may not be withdrawn without

penalty until the individual reaches 59½ years of age or is disabled. An additional 10% tax is imposed for early withdrawal and any such withdrawal is subject to income tax. Funds may be transferred from one custodian to another every three years. The custodian for an IRA is usually chosen on the basis of the return on money invested.

Show slide PMM-27
IRA Investment
Custodians

IRA INVESTMENT CUSTODIANS

- * Savings Accounts
- * Mutual Funds
- * Stocks and Bonds
- * Life Insurance Companies
- * Retirement Bonds

PMM-27

More than two-thirds of existing IRA accounts are invested in savings accounts with banks, savings and loan associations, or credit unions because of relatively high returns in recent years.

Show slide PMM-28
Keogh Retirement Plan

KEOGH RETIREMENT PLAN

- * Self-employed--full or part-time (even when individual has a pension plan at regular job).
- * Contribution of 15% (\$7500 maximum) of your earnings is deductible from your taxable income each year.
- * No matter what you earn, the first \$750 of your earnings may be deducted from your taxable income.
- * Annual contribution may be determined when tax return is filed.
- * Funds invested in certificates and/or investments.

PMM-28

2) Keogh Retirement Plans are for self-employed individuals who have earned income. Investment in these accounts is limited to 15% of yearly income or \$7500, whichever is less. The benefits and restrictions are similar to those for IRA's, but this plan can offer a greater tax shelter for successful self-employed persons. The easiest way to set up a Keogh Plan is to join an existing plan operated by a savings institution or mutual fund.

d. There are a number of savings and investment alternatives to conventional savings accounts.

Show slide PMM-29
Savings and Investment
Alternatives

SAVINGS AND INVESTMENT ALTERNATIVES

- * Money Market Funds
- * Bonds
- * Stocks
- * Mutual Funds
- * Others--Rare Coins, Furniture,
Real Estate, Insurance

PMM-29

1) Money market funds are pools of investors' funds. They use accumulated funds to purchase large denomination, short-term obligations in the money market. Such funds approximate regular savings accounts in flexibility. Money can be moved in and out of them easily and they involve very little risk. The returns on investments in these funds range from less than 5% to 12% and the initial investment required may be from \$500 to \$50,000.

2) Bonds are a relatively safe investment with reasonably good assurance of receiving interest regularly and earning the principal back at maturity. They are a particularly attractive instrument for the elderly, but returns may seem meager if inflation

is high. Income from most bonds, other than federal, state, and local government bonds, is taxable at ordinary income tax rates.

3) Stocks have been a good investment because the long term trend in stock prices was generally up. As a result, some have provided a better hedge against inflation than most investments. There is, however, an element of risk in stock investment and such investments should be made by persons with adequate life insurance and savings to protect them from emergencies. The advice of a reputable and experienced broker is essential when purchasing stocks.

4) Mutual funds pool the resources of many investors to buy diversified securities. This form of investment protects against some of the risks of stock investment, but costs more in terms of management fees and loading. A reputable broker should be consulted before investing in any mutual fund.

5) Land, life insurance, rare coins, and many other collectable

items represent good investments for experienced buyers, but can be disastrous for the uninformed and uninitiated. Professional advice or long personal experience are recommended before undertaking such investments.

Show slide PMM-30
Returns on Alternative
Investments of \$10,000

RETURNS ON ALTERNATIVE
INVESTMENTS OF \$10,000

*NOTE: Slide depicts line graph.

PMM-30

6) The kind of investment an individual should make is determined by his money goals and the risk he is willing to take to achieve them. Stocks and mutual funds appear to provide the best growth with moderate risk. Regular savings, savings certificates and treasury bills provide consistent moderate growth with low risk, and corporate bonds provide moderate to low growth with moderate risk.

13. Managing credit is as important as managing income. Credit is a useful asset when it is properly used, but it is the rock on which many money management plans are wrecked.

Show slide PMM-31
When to borrow

WHEN TO BORROW

- | | |
|---------------------|-------------------------------|
| * Major Event | * Sales Opportunity |
| * Large Purchase | * Education Expenses |
| * Genuine Emergency | * Price Increase Expectations |

PMM-31

Borrowing is appropriate when money is needed for a major event in life, making necessary large purchases, and emergencies. It can also be used effectively to take advantage of price breaks on needed items, to pay education expenses, and beat an expected sharp increase in price on a needed item. Credit should not be used to get money for gambling or pay for luxury items and recreation. It should never be used when there is no reasonable expectation that the amount borrowed can be repaid nor should it be used to pay current expenses.

Show slide PMM-32
Sources of Loans

SOURCES OF LOANS

- | | |
|--------------------------|-----------------------------------|
| * Commercial Banks | * Bank Credit Cards |
| * Small Loan Companies | * Mortgage Companies |
| * Credit Unions | * Borrowing against home mortgage |
| * Savings and Loans | * Advance against salary |
| * Life Insurance Company | * Family and friends |

PMM-32

a. There are many sources of loans. The source you choose should be based on the type of loan you want and the kind of terms you need for repayment. It pays to shop for best terms and interest rates to keep down the cost of using credit.

Show slide PMM-33
Loan Types

LOAN TYPES

- * Personal Loan
- * Automobile Loan
- * Mortgage Loan
- * Home Improvement Loan
- * Student Loans

PMM-33

b. The types of loans are as varied as the sources and there are

several ways of classifying them. These are classified according to purpose.

1) Personal loans are for personal purposes and are usually in amounts of \$5,000 or less. Most are obtained at interest rates between 12 and 14 percent and must be repaid in 3 to 4 years.

2) Automobile Loans are secured by the title to the car and typically run 3 or 4 years. Interest rates are 9 to 12 percent for new cars and 11 to 16 percent for used cars.

3) Mortgage Loans are loans to purchase a home or other real estate, and they are secured by the property purchased. A typical loan is about \$50,000. Interest is 9 or 10 percent per annum and the repayment period 30 to 35 years for first mortgages, 3 to 10 years for second mortgages, and 25 to 30 years for re-financed mortgages.

4) Home Improvement Loans run between \$10,000 and \$15,000. Maturity ranges from 5 to 7 years and interest is 10 or 15 percent per year.

5) Student Loans are loans for education and may be as much as \$2,500 per year. When they are guaranteed by the government, interest is 7 percent, otherwise, it is 9 to 12 percent.

Show slide PMM-34
Additional Types of
Loans

ADDITIONAL TYPES OF LOANS

- * Secured Loan
- * Check Loan
- * Credit Card Loan

PMM-34

c. There are several ways to get loans quickly.

1) Secured Loans are obtained inexpensively and quickly by pledging collateral such as stocks, bonds, mutual fund shares, savings or the cash value of a life insurance policy.

2) Check Loans are loans written by the borrower in accordance with a limiting agreement with the bank. Some use personal checks on accounts with an authorized overdraft provision. Others provide a number of special checks which the borrower can use to activate a loan.

3) Credit Card Loans are made through the credit card company or bank. Payments are based on the amount of the balance, and interest is charged on balances not paid in 30 days. Interest is 12 to 18 percent per year.

Show slide PMM-35
Basis for Credit
Decisions

BASIS FOR CREDIT DECISIONS

- * Character
- * Capital
- * Capacity
- * Collateral

PMM-35

d. The granting of credit is based on the character, capital, and capacity of the borrower. If an individual has a good record of paying financial obligations, owns property or other assets, and has income sufficient to repay the loan within the time allowed, he is likely to be considered a good credit risk.

Show slide PMM-36
Consumer Protection
Laws

CONSUMER PROTECTION LAWS

- * Equal Credit Opportunity Act
- * Fair Credit Reporting Act
- * Truth in Lending Act

PMM-36

e. In recent years a number of laws have been passed to insure consumers of fair and equitable treatment in obtaining loans.

1) The Equal Credit Opportunity Act prohibits discrimination in lending for reasons of sex, marital status, race, religion, color, age or national origin. It also forbids discrimination because the consumer is a welfare recipient, or because he has a record of complaints under consumer protection legislation.

2) The Fair Credit Reporting Act protects consumers from being denied credit without specific knowledge of why they were refused and gives them the right to have inaccurate credit information corrected. Under this act a consumer can request a copy of a credit report within 30 days after being denied credit and file a statement of 100 words or less explaining inaccuracies in the report. He may also ask the credit reporting agency to verify information in his report, and if the information is inaccurate, the agency must notify all creditors

who have received such information. Accurate but unfavorable information must be removed from the credit record after seven years, or after fourteen years in case of bankruptcy. Complaints about credit denial and delivery of information required by this act should be made to the Office of Saver and Consumer Affairs at the Federal Reserve Board, the Bureau of Consumer Protection under the Federal Trade Commission, a local consumer protection agency or the Consumer Assistance Agency under the state's Banking Department.

3) The Truth in Lending Law requires that borrowers and users of credit be fully informed of the cost of credit.

f. A good credit rating is a valuable asset. To keep one, consumers must avoid excessive installment debt, maintain a cash reserve equivalent to two or three months pay, be honest in applying for credit, and repay all debts as agreed. A credit rating can be altered by changes in length of employment, previous loan repayment history, length of residence or home

ownership, charge account payment history, and whether or not the individual concerned has a checking or savings account.

Show slide PMM-37
Profile of Consumer
with Excessive Debt

PROFILE OF CONSUMER WITH EXCESSIVE DEBT

- * Head of four-person household
- * Mid-30's
- * Gross Annual income - \$11,800
- * Debts averaging \$7,800
- * Owe 8.8 creditors
- * Expenses exceed monthly income by \$397

PMM-37

g. A typical consumer with excessive debts is the head of a four-person household, in his or her mid-thirties, with a gross annual income of about \$11,800. His or her debts average \$7,800 spread over accounts with 8.8 creditors, and expenses are about \$397 more per month than income.

h. Excessive debt decreases consumer options and makes life very difficult. Emergencies become catastrophes and bill paying a chore.

1) One in every twenty Americans was in debt to an excessive degree at the beginning of 1978.

Especially vulnerable to excessive debt were recent retirees whose income had been sharply reduced and who borrowed or bought on credit to meet daily expenses; individuals involved in divorce who underestimated the cost of living alone and paying child support; compulsive spenders who for some reason used credit buying as an emotional escape; and those who did not understand the obligations resulting from the use of credit.

Show slide PMM-38
Debt Guidelines

DEBT GUIDELINES--EXCLUDING MORTGAGE

- * Comfortable level--loan repayment amount = 10% of take-home pay
- * Manageable level--loan repayment amount = 15% of take-home pay
- * Excessive level--loan repayment amount = 20% of take-home pay

PMM-38

2) Some guidelines are necessary so that consumers can know when indebtedness begins to be excessive. When payments on loans, exclusive of the home mortgage, reach 20% of disposable income, the consumer may be in trouble. If other signs are present such as longer and longer contracts on installment

accounts, continually increasing charges to revolving charge accounts, current bills arriving before past bills are paid, or the consumer continues to charge after taking out a debt consolidation loan, he is in trouble.

3) If a consumer finds that he has exceeded his debt limits, all is not necessarily lost. He can get out, if he takes the necessary steps promptly. The first step is to stop all credit operations, and not contract any more debts until his debt level is below 20% of his after tax income. He should strive to reach a point where his debt is 10% of the amount which he could pay from income within 18 months and to have payments which obligate less than one-third of his take home pay after paying for food, clothing and shelter. He should not allow himself to become obligated for amounts greater than could be handled in an emergency from unemployment compensation, insurance, union benefits or savings. Next he should review his spending habits and eliminate waste

where possible, analyze his financial situation, develop a realistic new budget, and then stick with his plan. If his plan involves reduced payments to creditors, he should discuss it with them and get their approval if possible. If he cannot do these things himself, he should consult a credit counseling agency for help and advice.

Show slide PMM-39
Why Debtors Resort
to Bankruptcy

WHY DEBTORS RESORT TO BANKRUPTCY

* Too many debts	31%
* Family health	28%
* Layoffs, strikes	20%
* Pressure from creditors	13%
* Legal action	10%
* Marital problems, drinking, gambling	10%
* To avoid paying debts	7%

PMM-39

4) Bankruptcy often appears to be an easy way out of excessive indebtedness. According to a recent study by Brookings Institute, the highest number of bankruptcies are declared by people who have overspent or have had financial reverses from unexpected loss of income. As a result of bankruptcy, easy access to credit is lost; most

assets, including the home in some states, are lost; and self-respect and reputation for reliability are damaged.

Show slide PMM-40
Types of Bankruptcy

TYPES OF BANKRUPTCY

- * Debt Reorganization
- * Voluntary Bankruptcy

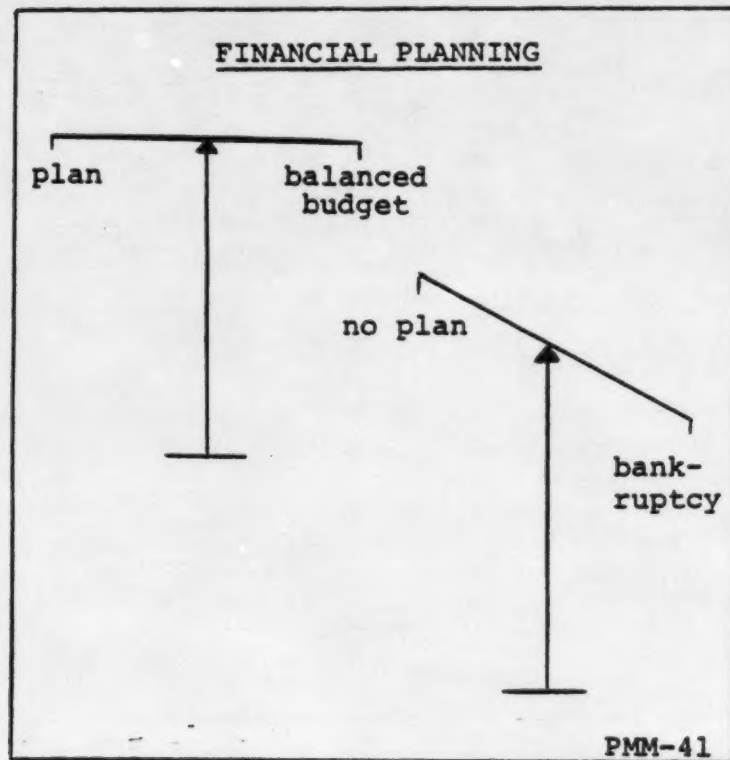
PMM-40

a) Debt reorganization bankruptcy is supervised by a Federal judge. The debtor, creditor(s), and a referee work out a means of repaying the debtor's obligations in installments from future earnings. The debtor's wages and essential property are protected and he gains an extension of time to pay his debts. This kind of bankruptcy must be approved by half of the creditors involved, and when approved, all interest charges are suspended. The debtor must pay a filing fee, legal fees and a trustee's fee as well as the expenses of the action.

b) With voluntary bankruptcy, a list of the debtor's assets and liabilities is compiled, all of his assets except personal items are liquidated by the court, and the proceeds are distributed to the creditors. Once

discharged by the court, the debtor's financial slate is clean.

Show slide PMM-41
Financial Planning



C. Summary and Evaluation

Summary Suggestions

At the end of your presentation you may wish to:

1. Give a general summary.
2. Answer any questions as time allows.
3. Administer a quiz designed to measure the accomplishment of objectives. If a quiz is given, review the answers and explain any areas where there seems to be a marked lack of understanding.
4. If an evaluation form is to be used, it should be distributed and collected at the conclusion of the presentation and questions.

MULTIPLE CHOICE-TRUE/FALSE QUIZ

1. What are the elements of a budget?
 - a) Income
 - b) Fixed expenses
 - c) Everyday expenses
 - d) Anticipation of future earnings
 - e) a, b & c
 - f) All of the above
2. Which guidelines should be followed for successful budget preparation?
 - a) Be realistic
 - b) Don't cut or overlook major expense items
 - c) Allow for unexpected expenses
 - d) Reduce expenses when they exceed income
 - e) All of the above
3. Where should an individual's money be kept?
 - a) At home, in cash
 - b) Savings account
 - c) Checking account
 - d) Depends on individual's needs
 - e) Combination of checking and savings account
4. Which of the following is not a financial institution in which funds may be deposited?
 - a) Commercial Bank
 - b) Federal Deposit Insurance Corporation
 - c) Credit Union
 - d) Savings and Loan Associations
 - e) Mutual Savings Bank
5. What are the advantages of a checking account?
 - a) Safe way to transfer cash
 - b) Good record of payments
 - c) Receive interest on balance
 - d) a & b
 - e) a, b & c
6. Which of the following costs require consideration when opening a checking account?
 - a) Printing costs for checks
 - b) Penalties for overdrafts
 - c) Stop payment charges
 - d) Request for copies of past records
 - e) All of the above

7. Which method of interest calculation pays the most interest?
- a) Day of deposit to day of withdrawal
 - b) Low balance
 - c) Last in - first out
 - d) First in - first out
 - e) None of the above
8. There are legal limits to the amount of interest a financial institution may pay?
- a) True
 - b) False
9. Any gainfully employed individual is eligible to join an individual retirement account.
- a) True
 - b) False
10. Under an individual retirement account, what is the maximum an individual may contribute annually?
- a) 5% of earned income, not to exceed \$500.00
 - b) 10% of earned income, not to exceed \$1,000.00
 - c) 15% of earned income, not to exceed \$1,500.00
 - d) 20% of earned income, not to exceed \$2,100.00
 - e) None of the above
11. Anyone who is self employed and has earned income is eligible to belong to a Keogh retirement plan?
- a) True
 - b) False
12. Which of the following are alternatives to savings accounts?
- a) Money Market Funds
 - b) Stocks & Bonds
 - c) Mutual Funds
 - d) Rare coins, real estate, insurance
 - e) All of the above
13. For which of the following reasons is borrowing not appropriate?
- a) Major event
 - b) Easier payment terms
 - c) Genuine emergency
 - d) Sales opportunity
 - e) Education expenses

14. What sources of loans are most appropriate?
- a) Commercial Banks
 - b) Savings and Loans
 - c) Credit Unions
 - d) Borrowing against Home Mortgage
 - e) All of the above
15. Credit decisions are based on the character of the individual requesting the loan, his past record of paying financial obligations, his assets and his ability to repay the loan.
- a) True
 - b) False

Answers:

1-e, 2-e, 3-d, 4-b, 5-d, 6-e, 7-a, 8-a, 9-b, 10-c, 11-a, 12-e, 13-b, 14-e, 15-a.

DISCUSSION QUESTIONS

1. Discuss reasons for having a budget, key elements involved in budget preparation and guidelines for successful budgeting.
2. Discuss considerations involved in deciding where to keep your money.
3. Discuss features of checking accounts and how they operate.
4. Discuss types of savings accounts available and considerations involved in making saving decisions.
5. Discuss means by which one can save for retirement.
6. Discuss savings and investment alternatives to regular savings accounts.
7. Discuss reasons one might decide to use credit to achieve individual goals.
8. Discuss essentials of credit such as sources for loans, types of loans, considerations involved in choosing a particular loan.
9. Discuss guidelines to avoid excessive debt.

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